

**PARTNERS FOR HEALING  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
DECEMBER 31, 2006**

***DRAFT***

***REVIEWED***

*By Vanessa Nabors at 11:47 am, Aug 27, 2007*

**PARTNERS FOR HEALING**

**TABLE OF CONTENTS**

**DECEMBER 31, 2006**

***DRAFT***

Page Number

**FINANCIAL SECTION**

|  |    |
|--|----|
| Independent Auditors' Report             | 1  |
| Statement of Financial Position          | 2  |
| Statement of Activities                  | 3  |
| Statement of Cash Flows                  | 4  |
| Notes to the Financial Statements        | 5  |
| Supplemental Information:                |    |
| Schedule of Functional Expenses          | 9  |
| Schedule of Expenditures of State Awards | 10 |

**INTERNAL CONTROL AND COMPLIANCE SECTION**

|   |    |
|---|----|
| Report on Internal Control Over Financial Reporting and On Compliance<br>And Other Matters Based on an Audit of Financial Statements Performed<br>in Accordance With <i>Government Auditing Standards</i> | 11 |
|---|----|

## INDEPENDENT AUDITORS' REPORT

**DRAFT**

To the Board of Directors of  
Partners for Healing

We have audited the accompanying statement of financial position of Partners for Healing (a nonprofit organization) as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Partners for Healing as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditure of state awards on page 10 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Tullahoma, TN  
August 3, 2007

**PARTNERS FOR HEALING  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2006**

**DRAFT**

**ASSETS**

|   |            |
|---|------------|
| Cash and cash equivalents                               | \$ 115,531 |
| Certificates of deposits                                | 161,723    |
| Grants receivable                                       | 20,750     |
| Unconditional promises to give                          | 30,100     |
| Restricted cash endowment                               | 32,435     |
| Capital assets not used in operations                   | 58,000     |
| Property and equipment, net of accumulated depreciation | 189,764    |

|                     |                   |
|---------------------|-------------------|
| <b>TOTAL ASSETS</b> | <b>\$ 608,303</b> |
|---------------------|-------------------|

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

|                         |        |
|-------------------------|--------|
| Accounts payable        | \$ 336 |
| Accrued liabilities     | 1,873  |
| Unearned grant proceeds | 7,500  |
| Note payable            | 25,808 |

|                          |               |
|--------------------------|---------------|
| <b>TOTAL LIABILITIES</b> | <b>35,517</b> |
|--------------------------|---------------|

**NET ASSETS**

|                        |         |
|------------------------|---------|
| Unrestricted           | 505,672 |
| Temporarily restricted | 34,679  |
| Permanently restricted | 32,435  |

|                         |                |
|-------------------------|----------------|
| <b>TOTAL NET ASSETS</b> | <b>572,786</b> |
|-------------------------|----------------|

|   |                   |
|---|-------------------|
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b>\$ 608,303</b> |
|---|-------------------|

The accompanying notes are an integral part of this financial statement

**PARTNERS FOR HEALING  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**DRAFT**

**UNRESTRICTED ASSETS**

|  |                   |
|--|-------------------|
| Unrestricted revenues and support:                 |                   |
| Contributions                                      | \$ 46,472         |
| Fundraising income                                 | 39,011            |
| Grants and contracts                               | 111,500           |
| Contracts and private grants                       | 56,875            |
| Volunteer labor services                           | 69,050            |
| Donated equipment                                  | 80,000            |
| Interest income                                    | 12,951            |
| Other income                                       | 700               |
|  | <hr/>             |
| <b>Total revenues and support</b>                  | <b>416,559</b>    |
| <b>Net assets released from donor restrictions</b> | <b>18,147</b>     |
| <b>Expenses</b>                                    |                   |
| Program services:                                  |                   |
| Salaries and labor costs                           | 179,227           |
| Building and occupancy expense                     | 24,205            |
| Medical services                                   | 16,560            |
|  | <hr/>             |
| <b>Total program services</b>                      | <b>219,992</b>    |
| Supporting services:                               |                   |
| Salaries and labor costs                           | 28,419            |
| Building and occupancy expense                     | 12,863            |
| Fundraising expenses                               | 15,107            |
| Interest expense                                   | 1,493             |
|  | <hr/>             |
| <b>Total supporting services</b>                   | <b>57,882</b>     |
|  | <hr/>             |
| <b>CHANGE IN UNRESTRICTED NET ASSETS</b>           | <b>156,832</b>    |
| <b>TEMPORARILY RESTRICTED ASSETS</b>               |                   |
| Contributions                                      | 7,426             |
| Net assets released from donor restrictions        | (18,147)          |
|  | <hr/>             |
| <b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b> | <b>(10,721)</b>   |
| <b>PERMANENTLY RESTRICTED ASSETS</b>               |                   |
| Restricted Endowment Contributions                 | -                 |
|  | <hr/>             |
| <b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b> | <b>-</b>          |
|  | <hr/>             |
| <b>CHANGE IN NET ASSETS</b>                        | <b>146,111</b>    |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>             | <b>426,675</b>    |
|  | <hr/>             |
| <b>NET ASSETS AT END OF YEAR</b>                   | <b>\$ 572,786</b> |
|  | <hr/>             |

The accompanying notes are an integral part of this financial statement

**PARTNERS FOR HEALING  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**DRAFT**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|   |            |
|---|------------|
| Change in net assets  | \$ 146,111 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |            |
| Depreciation and amortization   | 10,222     |
| Noncash equipment contributions   | (80,000)   |
| Increase in grants receivable   | (10,375)   |
| Decrease in promises to give  | 15,300     |
| Decrease in accounts payable  | (1,607)    |
| Decrease in unearned grant proceeds   | (94,375)   |
| Decrease in accrued liabilities   | (143)      |
| Total Adjustments   | (160,978)  |
| Net cash provided by operating activities   | (14,867)   |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|  |         |
|--|---------|
| Cash payments for certificates of deposit  | 81,702  |
| Cash payments for the purchase of property | (6,445) |
| Net cash used by investing activities      | 75,257  |

**CASH FLOWS FROM FINANCING ACTIVITIES:**

|                                       |          |
|---------------------------------------|----------|
| Principal payments on notes payable   | (18,692) |
| Net cash used by financing activities | (18,692) |

**NET DECREASE IN CASH AND EQUIVALENTS**

41,698

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR**

73,833

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 115,531

**SUPPLEMENTAL DATA:**

|               |          |
|---------------|----------|
| Interest paid | \$ 1,493 |
|---------------|----------|

The accompanying notes are an integral part of this financial statement

**PARTNERS FOR HEALING  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**DRAFT**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

Partners for Healing (the “Organization”) began operations in November 2001. The Organization provides free health care service, dental care, eye care, podiatry care and general education programs including social services and counseling to working uninsured individuals living in Coffee County. The Organization is primarily supported by direct solicitations to local citizens, area businesses, and local churches. The Organization also receives grants from the State of Tennessee, foundations, corporations and other organizations.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated over their estimated useful lives using the straight-line depreciation method.

**PARTNERS FOR HEALING  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**DRAFT**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income Taxes

The organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

Cash includes petty cash and amounts in demand deposits. Cash in excess of current requirements, is invested in interest-bearing accounts such as certificates of deposits. For purposes of the statements of cash flows, the Board considers cash and investments with a maturity of three months or less to be cash equivalents.

Functional Expenses

Salaries and related employee expenses are allocated to program and support service functions based on estimated time employees spend on each function. The remaining expenses are specifically allocated whenever practical, or are allocated based on salaries. Building and occupancy costs are allocated on the basis usage of the facilities. Depreciation is allocated on the basis of usage for furniture and equipment.

Compensated Absences

Employees of the Organization do not accrue sick or vacation time. No amounts are reflected in the financial statements for compensated absences.

Advertising

The Organization's policy is to expense advertising costs as they are incurred. The amount expensed for 2006 is \$1,314.

**NOTE 2 – CASH AND CASH IN CERTIFICATES OF DEPOSIT**

The Organization's cash in checking and certificates of deposits totaled \$309,689. The total balance in certificates of deposits was \$194,158, all of which are secured by FDIC insurance.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and Equipment at December 31, 2006 consist of the following:

|                                |                         |
|--------------------------------|-------------------------|
| Land                           | \$ 30,000               |
| Building                       | 139,497                 |
| Equipment                      | 51,287                  |
|                                | <hr/> 220,784           |
| Less: accumulated depreciation | (31,020)                |
|                                | <hr/> <u>\$ 189,764</u> |

Depreciation expense was \$10,222 for the year ended December 31, 2006. The organization's land and building are collateral for notes payable, see Note 9 for further discussion.



**PARTNERS FOR HEALING  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**DRAFT**

**NOTE 4 – DONATED SERVICES**

One of the Organization's primary sources of medical care and administrative support is in the form of volunteered services. The fair value of these services received in 2006 has been estimated to be \$69,050, and included in Volunteer Labor Services and in Salaries and Labor Costs-Program services in the Statement of Activities for the year ended December 31, 2006.

**NOTE 5 – DONATED EQUIPMENT**

In 2006, the organization received various equipment from donors. The fair value of the equipment was estimated at the date of its contribution to be \$80,000.

**NOTE 6 – CONCENTRATION OF RISKS**

The Organization has as one of its primary funding sources, grants from the Tennessee Department of Health. The Organization could be severely affected if policies in determining grant amounts for organizations such as Partners for Healing, Inc. are altered through legislation.

**NOTE 7 – NOTE PAYABLE**

As of December 31, 2006, the organization had a \$25,808 note payable to bank. The note payable has an interest rate of 4.5% and matures on May 10, 2009. The note is secured by the organization's real estate. Interest expense totaled \$1,493 for the year ended December 31, 2006. The following is a summary of activity for the note payable:

|              | Balance<br>December 31,<br>2005 | Additions | Retirements | Balance,<br>December 31,<br>2006 |
|--------------|---------------------------------|-----------|-------------|----------------------------------|
| Note payable | \$ 44,500                       | -         | (18,692)    | \$ 25,808                        |

Annual debt service requirements for the note payable are as follows:

|              |                  |
|--------------|------------------|
| December 31, |                  |
| 2007         | \$ -             |
| 2008         | 25,808           |
|              | <u>\$ 25,808</u> |

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at December 31, 2006:

|                                  |                  |
|----------------------------------|------------------|
| Dental services                  | \$ 300           |
| Diabetic supplies                | 353              |
| Doppler machine                  | 500              |
| Patient assistance               | 1,500            |
| Prenatal program                 | 1,926            |
| Building loan debt<br>retirement | 30,100           |
|                                  | <u>\$ 34,679</u> |

**PARTNERS FOR HEALING  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**DRAFT**

**NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS**

Net assets were permanently restricted for the following purposes at December 31, 2006:

|  |                 |
|--|-----------------|
| Endowment Funds for operating the clinic | <u>\$32,435</u> |
|--|-----------------|

The endowment funds are voluntarily set aside by the board to be held indefinitely, the income from which is expendable for program and supporting services.

**NOTE 10 - FUNDRAISING EXPENSES AND REVENUES**

The Organization held several fundraising activities, to earn additional funds and increase public awareness of the organization. Fundraising revenues of \$39,011 are included in the total revenues and support section of the Statement of Activities. Fundraising expenses of \$15,107 are included in the supporting services section of the Statement of Activities.

**NOTE 11 – UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give at December 31, 2006 are as follows:

|                                |                  |
|--------------------------------|------------------|
| Receivable in one year or less | \$ 15,300        |
| Receivable in one to two years | 14,800           |
|                                | <u>\$ 30,100</u> |

Historically the Organization has not experienced any losses on unconditional promises to give. Therefore, no provision is made for uncollectible amounts.

**PARTNERS FOR HEALING  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

DRAFT

|                                  | <b>Program<br/>Services</b> | <b>Support Services</b>           |                    |                   |
|----------------------------------|-----------------------------|-----------------------------------|--------------------|-------------------|
|                                  | <b>Patient<br/>Care</b>     | <b>Management<br/>and General</b> | <b>Fundraising</b> | <b>Total</b>      |
| Salaries and wages               | \$ 102,188                  | \$ 26,167                         | \$ -               | \$ 128,355        |
| Donated volunteer labor          | 69,050                      | -                                 | -                  | 69,050            |
| Payroll taxes                    | 7,062                       | 2,253                             | -                  | 9,315             |
| Workers comp insurance           | 927                         | -                                 | -                  | 927               |
| Contracted medical services      | 6,790                       | -                                 | -                  | 6,790             |
| Patient services                 | 1,873                       | -                                 | -                  | 1,873             |
| Professional fees and dues       | -                           | 1,500                             | -                  | 1,500             |
| Clinic supplies                  | 7,897                       | -                                 | -                  | 7,897             |
| Office supplies                  | 1,006                       | 1,570                             | 475                | 3,051             |
| Telephone and communications     | 2,154                       | 718                               | -                  | 2,872             |
| Postage                          | 157                         | 819                               | 162                | 1,138             |
| Utilities                        | 3,385                       | 1,128                             | -                  | 4,513             |
| Marketing                        | 1,314                       | -                                 | -                  | 1,314             |
| Depreciation                     | 7,666                       | 2,556                             | -                  | 10,222            |
| Property and liability insurance | 1,945                       | 648                               | 405                | 2,998             |
| Interest                         | -                           | 1,493                             | -                  | 1,493             |
| Cleaning and maintenance         | 2,743                       | 914                               | -                  | 3,657             |
| Travel                           | 2,937                       | 517                               | -                  | 3,454             |
| Fundraising                      | -                           | -                                 | 13,915             | 13,915            |
| Other expenses                   | 898                         | 2,492                             | 150                | 3,540             |
| <b>Totals</b>                    | <b>\$ 219,992</b>           | <b>\$ 42,775</b>                  | <b>\$ 15,107</b>   | <b>\$ 277,874</b> |

See accompanying accountants' report.

**PARTNERS FOR HEALING**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**DRAFT**

| Program title                              | Contract number | Grant period       | Program award | Accrued<br>(deferred)<br>grant revenue<br>December 31,<br>2005 | Receipts        | Expenditures   | Accrued<br>(deferred)<br>grant revenue<br>December 31,<br>2006 |
|--|-----------------|--------------------|---------------|--|-----------------|----------------|--|
| Tennessee Department of Health:            |                 |                    |               |  |                 |                |  |
| Health Access Community Initiative Project | GR-06-17021-00  | 7/1/05 to 6/30/06  | 41,500        | \$ 10,375  | (31,125)        | 20,750         | \$ -   |
| Safety Net Expansion                       | GR-06-17478-00  | 10/3/05 to 6/30/06 | 75,000        | (70,000)   | -               | 70,000         | -  |
| Health Access Primary Care Clinic          | GR-07-18235-00  | 7/1/06 to 6/30/06  | 41,500        | -  | -               | 20,750         | 20,750   |
| Total Expenditures of State Awards         |                 |                    |               | <u>\$ (59,625)</u>   | <u>(31,125)</u> | <u>111,500</u> | <u>\$ 20,750</u>   |

See accompanying accountants' report.

***DRAFT***

**INTERNAL CONTROL AND COMPLIANCE SECTION**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 3, 2007

**DRAFT**

To the Board of Directors  
Partners for Healing  
Tullahoma, Tennessee

We have audited the financial statements of Partners for Healing (a nonprofit organization) as of and for the year ended December 31, 2006, and have issued our report thereon dated July 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Partners for Healing's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Partners for Healing's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Partners for Healing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management and specific legislative or government regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

1011